

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Handy Township	County Livingston
Audit Date 6/30/05	Opinion Date 9/15/05	Date Accountant Report Submitted to State: 10/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C. Aaron M. Stone</i>			Date 10/31/05

**Township of Handy
Livingston County, Michigan**

FINANCIAL STATEMENTS

June 30, 2005

Township of Handy
BOARD OF TRUSTEES
June 30, 2005

Cynthia Denby

Supervisor

Laura Eisele

Clerk

Linda Tesch

Treasurer

Henry Vaupel

Trustee

Robert Redinger

Trustee

Township of Handy

TABLE OF CONTENTS

June 30, 2005

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	8
Statement of Cash Flows - Proprietary Funds	9
Statement of Net Assets - Fiduciary Funds	10
Notes to Financial Statements	11-19
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule - General Fund	20-22
OTHER SUPPLEMENTARY INFORMATION	
Combining Statement of Fiduciary Net Assets - Agency Funds	23-24

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Handy
Fowlerville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Handy, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Handy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Handy, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Handy's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 15, 2005

Township of Handy

Management's Discussion and Analysis

The following is a discussion and analysis of Township of Handy's (the Township's) financial performance and position, providing an overview of the activities for the year ended June 30, 2005. This analysis should be read in conjunction with the *Independent Auditor's Report* and with the Township's financial statements, which follow this section. This discussion and analysis provides comparisons with the previous year.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets at the close of the fiscal year were \$6,388,767.
- Governmental activities net assets were \$880,287.
- Business-type activities net assets were \$5,508,480.

Fund Level:

- At the close of the fiscal year, the Township's governmental funds reported a combined ending fund balance of \$638,583.
- The General Fund realized \$37,528 less in revenues than anticipated for the fiscal year. However, General Fund operations also expended \$331,867 less than appropriated.
- Overall, the General Fund fund balance increased by \$32,569 to \$635,143.

Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$4,550,000 with a net reduction of \$340,000 from the prior year.
- The total additions to the capital asset schedule for the primary government were \$5,965,280 which included construction of the new sewer system and the contribution of a new water system to the Township.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's annual financial report. The annual financial report of the Township consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund, and *Other Supplementary Information* including combining financial statements for fiduciary funds.

Government-wide Financial Statements (Reporting the Township as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Township as a whole, and about its activities. Their purpose is to assist in answering the question, is the Township, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Township's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Township's financial position is improving or deteriorating.

Township of Handy

Management's Discussion and Analysis

The Statement of Activities (page 2) presents information showing how the Township's net assets changed during 2004/2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Township's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Township's general government departments such as law enforcement, economic development, Township improvements, recreation activities, and other Township wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Township charges fees to recover the cost of the services provided. The Sewer and Water System services are examples of these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period, expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts for bonds appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.

In addition, it should be noted that the government-wide financial statements include the net value of the Township's general capital assets such as buildings, land, equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the Township's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Township's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Township uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Township of Handy include the General Fund, Sewer Fund, and Water Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The Township includes detailed information on its nonmajor funds in the other supplementary information section of this report.

Township of Handy

Management's Discussion and Analysis

The Township's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the Township's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Township's programs. Governmental funds include the *General Fund*, and *Debt Service Fund* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. *Enterprise funds* report activities that provide supplies and/or services to the general public. The Township maintains proprietary funds for the sewer system and water system operations.
- **Fiduciary Funds** - The Township acts as a trustee or fiduciary in certain instances. The Township's fiduciary activities are reported in the separate Statement of Net Assets on page 10. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the Township to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 11 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedule for the General Fund.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for the Township's fiduciary funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

As previously stated, Township of Handy's combined net assets were \$5,478,778 at the end of this fiscal year's operations. The net assets of the governmental activities were \$875,682; the business type activities were \$4,603,096.

Net Assets as of June 30, 2005 and 2004

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other	\$ 732,879	\$ 559,095	\$ 4,393,187	\$ 4,289,479	\$ 5,129,066	\$ 4,848,574
Capital assets, net	<u>615,863</u>	<u>730,741</u>	<u>5,344,417</u>	<u>4,726,122</u>	<u>5,965,280</u>	<u>5,456,863</u>
Total Assets	<u>\$ 1,348,742</u>	<u>\$ 1,289,836</u>	<u>\$ 9,745,604</u>	<u>\$ 9,015,601</u>	<u>\$11,094,346</u>	<u>\$10,305,437</u>

Township of Handy

Management's Discussion and Analysis

Net Assets as of June 30, 2005 and 2004 - continued

	Governmental Activities June 30,		Business-type Activities June 30,		Total Primary Government June 30,	
	2005	2004	2005	2004	2005	2004
Current Liabilities	\$ 118,455	\$ 137,705	\$ 302,124	\$ 259,095	\$ 420,579	\$ 396,800
Noncurrent Liabilities	350,000	370,000	3,935,000	4,180,000	4,285,000	4,550,000
Total Liabilities	\$ 468,455	\$ 507,705	\$ 4,237,124	\$ 4,439,095	\$ 4,705,579	\$ 4,946,800
Net Assets						
Invested in						
Capital Assets						
(net of related debt)	\$ 245,863	\$ 165,741	\$ 1,169,417	\$(1,531,524)	\$ 1,415,280	\$(1,365,783)
Restricted	-	-	-	256,757	-	256,757
Unrestricted	634,424	616,390	4,339,063	5,851,273	4,973,487	6,467,663
Total Net Assets	\$ 880,287	\$ 782,131	\$ 5,508,480	\$ 4,576,506	\$ 6,388,767	\$ 5,358,637

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Township's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2004

	Governmental Activities June 30,		Business-type Activities June 30,		Total Primary Government June 30,	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$ 109,100	\$ 140,767	\$ 9,949	\$ -	\$ 119,049	\$ 140,767
Grants and Contributions	32,244	49,517	1,165,751	222,012	1,197,995	271,529
General Revenues						
Property Taxes	332,012	263,893	-	-	332,012	263,893
State Shared Revenue	266,625	274,696	-	-	266,625	274,696
Investment Earnings	13,728	3,684	14,846	44,503	28,574	48,187
Miscellaneous	62,909	22,420	56,678	-	121,587	22,420
Total Revenues	816,618	754,977	1,249,244	266,515	2,065,842	1,021,492
Expenses						
General Government	369,822	331,002	-	-	369,822	331,002
Public Safety	76,650	140,936	-	-	76,650	140,936
Public Works	100,065	103,602	-	-	100,065	103,602
Community and Economic Dev.	107,134	33,044	-	-	107,134	33,044
Recreation & Cultural	15,863	10,920	-	-	15,863	10,920
Other	31,277	24,457	317,250	177,789	348,527	202,246
Interest on Long-term Debt	17,651	21,834	-	-	17,651	21,834
Total Expenses	718,462	665,795	317,250	177,789	1,035,712	843,584
Increase in Net Assets	98,156	89,182	931,974	88,726	1,030,130	177,908

Township of Handy

Management's Discussion and Analysis

Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2004 - continued

	Governmental Activities June 30,		Business-type Activities June 30,		Total Primary Government June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net Assets - Beginning	\$ 782,131	\$ 692,949	\$ 4,576,506	\$ 225,962	\$ 5,358,637	\$ 918,911
Prior Period Adjustments	-	-	-	4,261,818	-	4,261,818
Net Assets - Ending	<u>\$ 880,287</u>	<u>\$ 782,131</u>	<u>\$ 5,508,480</u>	<u>\$ 4,576,506</u>	<u>\$ 6,388,767</u>	<u>\$ 5,358,637</u>

Governmental Activities:

The result of 2004/2005 governmental activity was an increase of \$98,156 in net assets to \$880,287. Of the total governmental activities' net assets, \$245,863 is invested in capital assets and the balance of \$634,424 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 37%, state shared revenue at 33%, and charges for services at 12%. The Township levied property tax millage for the year ended June 30, 2005, for general government operations at .9086 and .9588 mills for road work. Charges for services, which reimburse the Township for specific activities, are the third largest source of governmental activity revenue. Examples include rentals, recreation fees, fire protection, and permits. State shared revenue, the second largest source of governmental activity revenue, is also not assigned to any particular activity.

Expenses:

General government is the largest governmental activity, expending approximately 51% of the governmental activities total and includes the Clerk, Treasurer, and Township Supervisor departments. Community and economic development is the second largest area, expending approximately 15% of the governmental activities total on planning and zoning activities.

Business-type Activities:

Net assets in business-type activities increased by \$931,974 to \$5,508,480 in 2004/2005, which is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S MAJOR AND NONMAJOR FUNDS

As the Township completed 2004/2005, its governmental funds reported *combined* fund balances of \$633,978. This is a net increase of \$28,176. The net changes are summarized in the following chart:

	General Fund	Nonmajor Governmental Funds
Fund Balance 06/30/04	\$ 602,574	\$ 3,228
Fund Balance 06/30/05	\$ 635,143	\$ 3,440
Net Change	\$ 32,569	\$ 212

Township of Handy

Management's Discussion and Analysis

General Fund:

The General Fund is the chief operating fund of the Township. Unless otherwise required by statute, contractual agreement or Board policy, all Township revenues and expenditures are recorded in the General Fund. As of June 30, 2005, the General Fund reported a fund balance of \$635,143. This amount is an increase of \$32,569 from the fund balance of \$602,574 reported as of June 30, 2004. The 2004/2005 original budget called for a \$261,770 decrease of fund balance. The entire fund balance is reported as undesignated.

General Fund Budgetary Highlights:

The Township of Handy's budget is a dynamic document. Although adopted in June (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue totaled \$800,382; \$37,528 below the final amended budget. Also the revenue budget fell short on refunds and reimbursements by \$64,102.

Actual Township expenditures for 2004/2005 were \$331,867 under budget. This is due to several reasons, including:

- \$102,569 less than planned expenditures in the refuse collection.
- \$125,487 less than planned expenditures in the highways and streets.
- \$25,294 less than planned expenditures in the planning commission.

Sewer Fund - The Sewer Fund accounts for resources generated by providing sewer services to residents of the Township, the costs (expenses, including depreciation) are financed or recovered primarily through user charges. As of June 30, 2005, the Sewer Fund reported a balance of \$4,580,743, an increase of \$4,237 from the prior year. Of the total balance, \$287,417 is reported as invested in capital assets, net of related debt and \$4,293,326 is unrestricted.

Water Fund - The Water Fund accounts for resources generated by providing water services to residents of the Township, the costs (expenses, including depreciation) are financed or recovered primarily through charges. As of June 30, 2005, the Water Fund reported a balance of \$927,737, an increase of \$927,737. Of the total balance, \$882,000 is reported as invested in capital assets, net of related debt and \$45,737 is unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2004/2005, the Township had invested \$5,965,280, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$260,160 for the primary government. Depreciation charges for the fiscal year totaled \$139,475 for the primary government. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net Book value of capital assets at June 30, 2005 was as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Land	\$ 20,000	\$ -	\$ 20,000
Water system, net	-	882,000	882,000
Sewer system, net	-	4,467,417	4,467,417
Buildings and additions, net	555,018	-	555,018
Furniture and equipment, net	40,845	-	40,845
Capital assets, net	<u>\$ 615,863</u>	<u>\$ 5,349,417</u>	<u>\$ 5,965,280</u>

Long-term Debt - As of June 30, 2005, the Township had \$4,550,000 in bonds outstanding for the primary government. This level of net obligation is \$340,000 less than the obligation recorded as of June 30, 2004.

Township of Handy Management's Discussion and Analysis

Outstanding Debt as of June 30, 2005:

Primary Government	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Governmental Activities				
Bonds	\$ 465,000	\$ -	\$ 95,000	\$ 370,000
Business-type Activities				
System	<u>4,425,000</u>	<u>-</u>	<u>245,000</u>	<u>4,180,000</u>
Total Primary Government	<u>\$ 4,890,000</u>	<u>\$ -0-</u>	<u>\$ 340,000</u>	<u>\$ 4,550,000</u>

A more detailed discussion of the Township's long-term debt obligations is presented in Note E to the financial statements.

TOWNSHIP OF HANDY GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing has declined approximately 5.5%, roughly \$15,594 over the past year, and may face additional cuts due to state budget problems.
- Property tax revenue has not kept pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past four years.
- Utility costs are rising faster than the rate of inflation.
- Hazard/Liability Insurance costs are rising faster than the rate of inflation.
- The Township created a special assessment district to provide sewer services along parts of Van Buren and Fowlerville Roads. The plant should be in full operation mid January 2005.

These factors were considered in adopting the Budget for 2005/2006. The Township continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE TOWNSHIP

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Township of Handy's Office at (517) 223-3228.

BASIC FINANCIAL STATEMENTS

Township of Handy

STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 316,142	\$ 263,528	\$ 579,670
Investments	200,000	-	200,000
Receivables	90,071	3,872,156	3,962,227
Due from other funds	-	23,384	23,384
Due from other governmental units	26,666	1,162	27,828
Total current assets	632,879	4,160,230	4,793,109
Noncurrent assets			
Deposit with County	-	193,927	193,927
Advance to County	100,000	-	100,000
Unamortized bond discount	-	42,030	42,030
Capital assets not being depreciated	20,000	-	20,000
Capital assets, net of accumulated depreciation	595,863	5,349,417	5,945,280
Total noncurrent assets	715,863	5,585,374	6,301,237
TOTAL ASSETS	1,348,742	9,745,604	11,094,346
LIABILITIES			
Current liabilities			
Accounts payable	55,896	43,580	99,476
Accrued liabilities	15,016	-	15,016
Accrued interest payable	4,159	13,544	17,703
Due to other funds	23,384	-	23,384
Current portion of long-term debt	20,000	245,000	265,000
Total current liabilities	118,455	302,124	420,579
Noncurrent liabilities			
Noncurrent portion of long-term debt	350,000	3,935,000	4,285,000
TOTAL LIABILITIES	468,455	4,237,124	4,705,579
NET ASSETS			
Invested in capital assets, net of related debt	245,863	1,169,417	1,415,280
Unrestricted	634,424	4,339,063	4,973,487
TOTAL NET ASSETS	<u>\$ 880,287</u>	<u>\$ 5,508,480</u>	<u>\$ 6,388,767</u>

See accompanying notes to financial statements.

Township of Handy

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities Total
Governmental activities:						
General government	\$ 369,822	\$ 86,430	\$ -	\$ -	\$ (283,392)	\$ (283,392)
Public safety	76,650	3,654	32,244	-	(40,752)	(40,752)
Public works	100,065	16,545	-	-	(83,520)	(83,520)
Community and economic development	107,134	2,471	-	-	(104,663)	(104,663)
Recreation and cultural	15,863	-	-	-	(15,863)	(15,863)
Other	31,277	-	-	-	(31,277)	(31,277)
Interest on long-term debt	17,651	-	-	-	(17,651)	(17,651)
Total governmental activities	718,462	109,100	32,244	-0-	(577,118)	(577,118)
Business-type activities:						
Sewer	290,892	6,046	-	215,751	-	(69,095)
Water	26,358	3,903	50,000	900,000	-	927,545
Total business-type activities	317,250	9,949	50,000	1,115,751	-0-	858,450
Total	\$ 1,035,712	\$ 119,049	\$ 82,244	\$ 1,115,751	(577,118)	281,332
General revenues:						
Property taxes					332,012	332,012
State shared revenues					266,625	266,625
Investment earnings					13,728	14,846
Miscellaneous					62,909	58,678
Total general revenues					675,274	73,524
Change in net assets					98,156	931,974
Net assets, beginning of the year					782,131	4,576,506
Net assets, end of the year					\$ 880,287	\$ 5,508,480
						\$ 6,388,767

See accompanying notes to financial statements.

Township of Handy

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	General	Nonmajor Governmental Fund Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 311,803	\$ 4,339	\$ 316,142
Investments	200,000	-	200,000
Receivables			
Accounts	87,405	-	87,405
Interest	2,666	-	2,666
Due from other governmental units	18,190	8,476	26,666
Advance to County	100,000	-	100,000
TOTAL ASSETS	<u>\$ 720,064</u>	<u>\$ 12,815</u>	<u>\$ 732,879</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Payables			
Accounts	\$ 46,521	\$ 9,375	\$ 55,896
Accrued wages	15,016	-	15,016
Due to other funds	23,384	-	23,384
TOTAL LIABILITIES	84,921	9,375	94,296
FUND BALANCES			
Reserved for debt service	-	3,440	3,440
Unreserved, undesignated	635,143	-	635,143
TOTAL FUND BALANCES	<u>635,143</u>	<u>3,440</u>	<u>638,583</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 720,064</u>	<u>\$ 12,815</u>	<u>\$ 732,879</u>

See accompanying notes to financial statements.

Township of Handy

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance - governmental funds \$ 638,583

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 766,851	
Accumulated depreciation is	<u>(150,988)</u>	
Capital assets, net		615,863

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at year-end consist of:

Bonds payable	370,000	
Accrued interest payable	<u>4,159</u>	
		<u>(374,159)</u>

Net assets of governmental activities \$ 880,287

See accompanying notes to financial statements.

Township of Handy

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	General	Nonmajor Governmental Fund Debt Service	Total Governmental Funds
REVENUES			
Taxes	\$ 409,288	\$ -	\$ 409,288
Licenses and permits	33,025	-	33,025
Intergovernmental	266,625	32,244	298,869
Charges for services	6,670	-	6,670
Interest and rents	21,866	472	22,338
Other	62,908	-	62,908
TOTAL REVENUES	800,382	32,716	833,098
EXPENDITURES			
Current			
General government	363,537	-	363,537
Public safety	68,057	-	68,057
Public works	100,065	-	100,065
Community and economic development	107,134	-	107,134
Recreation and cultural	15,863	-	15,863
Other	31,277	-	31,277
Debt service			
Principal	80,000	15,000	95,000
Interest	1,880	17,504	19,384
TOTAL EXPENDITURES	767,813	32,504	800,317
EXCESS OF REVENUES OVER EXPENDITURES	32,569	212	32,781
Fund balances, beginning of year	602,574	3,228	605,802
Fund balances, end of year	\$ 635,143	\$ 3,440	\$ 638,583

See accompanying notes to financial statements.

Township of Handy

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ 32,781

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 15,425	
Depreciation expense	<u>(30,303)</u>	
Excess of depreciation expense over capital outlay		(14,878)

Items resulting from the repayment of long-term debt and borrowing of long-term debt is reported as expenditures, other financing uses, and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings and other liabilities increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	95,000
---------------------------	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

(Decrease) in deferred revenue	(16,480)
--------------------------------	----------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,733</u>
--------------------------------------	--------------

Change in net assets of governmental activities	<u><u>\$ 98,156</u></u>
--	-------------------------

See accompanying notes to financial statements.

Township of Handy

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2005

	Sewer	Water	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 217,820	\$ 45,708	\$ 263,528
Receivables			
Accounts	35,294	76	35,370
Utilities	6,045	3,901	9,946
Special assessment	3,826,039	-	3,826,039
Interest	801	-	801
Due from other funds	23,384	-	23,384
Due from other governmental units - local	1,162	-	1,162
Total current assets	4,110,545	49,685	4,160,230
Noncurrent assets			
Deposit with County	193,927	-	193,927
Unamortized bond discount	42,030	-	42,030
Capital assets, net of accumulated depreciation	4,467,417	882,000	5,349,417
Total noncurrent assets	4,703,374	882,000	5,585,374
TOTAL ASSETS	8,813,919	931,685	9,745,604
LIABILITIES			
Current liabilities			
Accounts payable	39,632	3,948	43,580
Accrued interest payable	13,544	-	13,544
Current portion of bonds payable	245,000	-	245,000
Total current liabilities	298,176	3,948	302,124
Noncurrent liabilities			
Bonds payable	3,935,000	-	3,935,000
TOTAL LIABILITIES	4,233,176	3,948	4,237,124
NET ASSETS			
Invested in capital assets, net of related debt	287,417	882,000	1,169,417
Unrestricted	4,293,326	45,737	4,339,063
TOTAL NET ASSETS	\$ 4,580,743	\$ 927,737	\$ 5,508,480

See accompanying notes to financial statements.

Township of Handy

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2005

	Sewer	Water	Total
OPERATING REVENUES			
Charges for services	\$ 6,046	\$ 3,903	\$ 9,949
OPERATING EXPENSES			
Supplies	1,625	5,218	6,843
Contracted services	14,095	3,128	17,223
Repairs and maintenance	2,431	-	2,431
Utilities	10,395	12	10,407
Depreciation	91,172	18,000	109,172
TOTAL OPERATING EXPENSES	119,718	26,358	146,076
OPERATING LOSS	(113,672)	(22,455)	(136,127)
NONOPERATING REVENUES (EXPENSES)			
Special assessments	215,751	-	215,751
Interest revenue	14,654	192	14,846
Contributions	-	950,000	950,000
Reimbursements	58,678	-	58,678
Bond discount	(2,335)	-	(2,335)
Interest expense	(168,839)	-	(168,839)
TOTAL NONOPERATING REVENUES (EXPENSES)	117,909	950,192	1,068,101
CHANGE IN NET ASSETS	4,237	927,737	931,974
Net assets, beginning of year	4,576,506	-	4,576,506
Net assets, end of year	\$ 4,580,743	\$ 927,737	\$ 5,508,480

See accompanying notes to financial statements.

Township of Handy

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	Sewer	Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 204,983	\$ (74)	\$ 204,909
Cash paid to suppliers and vendors	(28,546)	(4,410)	(32,956)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	176,437	(4,484)	171,953
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Reimbursements	58,678	-	58,678
Contributions	-	50,000	50,000
NET CASH PROVIDED BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	58,678	50,000	108,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest expense	(168,839)	-	(168,839)
Special assessments	215,751	-	215,751
Capital purchases	(70,759)	-	(70,759)
Payments on borrowings	(245,000)	-	(245,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(268,847)	-0-	(268,847)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	14,654	192	14,846
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,078)	45,708	26,630
Cash and cash equivalents, beginning of year	236,898	-	236,898
Cash and cash equivalents, end of year	<u>\$ 217,820</u>	<u>\$ 45,708</u>	<u>\$ 263,528</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (113,672)	\$ (22,455)	\$ (136,127)
Adjustments to reconcile operating loss to net cash provided used by operating activities			
Depreciation	91,172	18,000	109,172
(Increase) decrease in receivables	183,240	(3,977)	179,263
(Increase) in due from other funds	(23,384)	-	(23,384)
Increase in accounts payable	39,632	3,948	43,580
(Decrease) in accrued interest payable	(551)	-	(551)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 176,437</u>	<u>\$ (4,484)</u>	<u>\$ 171,953</u>

Note: In fiscal year 2005, the water fund recorded an increase in capital assets and contributions from developers, respectively, of \$900,000 as a result of construction cost related to developer projects.

See accompanying notes to financial statements.

Township of Handy

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 103,038
Due from individuals and agencies	82
Due from other funds	<u>71,602</u>
	<u>\$ 174,722</u>
LIABILITIES	
Due to other funds	\$ 71,602
Due to individuals and agencies	78,493
Due to other governmental units	<u>24,627</u>
TOTAL LIABILITIES	<u>\$ 174,722</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Handy was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Livingston County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Township of Handy. The Township has no activities that would be classified as component units.

2. Jointly Governed Organizations

The Township participates in the following activity which is considered to be a jointly governed organization in relation to the Township due to there being no ongoing financial interest or responsibility:

Fowlerville Are Fire Authority - The Township of Handy, in conjunction with the Townships of Conway and Iosco and Village of Fowlerville, have entered into an agreement that created the Fowlerville Area Fire Authority. The Fire Authority is composed of one (1) member from each of the member municipalities. The Township contributed \$8,606 to the Fire Authority for the year ended June 30, 2005.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund and major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- b. The Sewer Fund accounts for resources generated by providing sewer services to residents of the Township, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- c. The Water Fund accounts for resources generated by providing water services to residents of the Township, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency funds since assets equal liabilities.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Budgets and Budgetary Accounting

The General Fund's budget is prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Township employs the following procedures in establishing its budgetary data.

- a. Prior to June 1, the Supervisor submits to the Township Board a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to July 1, the budget is legally adopted by appropriating the funds necessary to operate.
- d. The budget is legally adopted at the functional level.
- e. The Township does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Any revisions to the budget must be approved by the Township Board.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts.

8. Investments

Investments consist of a certificate of deposit with an original maturity of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

9. Property Tax

The Township of Handy bills and collects its own property taxes and also taxes for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied annually on December 1, and are payable through February 14. All taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Livingston County Treasurer on March 1. The Livingston County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy taxes up to .9291 mills per \$1,000 of assessed valuation for general governmental services and additional amounts for road work. For the year ended June 30, 2005, the Township levied .9086 and .9588 mills per \$1,000 of assessed valuation for general governmental services and road work, respectively. The total Taxable Value for the 2004 levy for property within the Township was \$206,479,710.

10. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment, and utility systems and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of \$1,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and equipment	3 - 5 years
Buildings and improvements	20-50 years
Sewer and water systems	50 years

12. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for a payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of June 30, 2005, the carrying amount of the Township's deposits was \$882,708 and the bank balance was \$901,453, of which \$122,724 was covered by Federal depository insurance. The balance of \$778,729 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents referred to above have been reported in the cash, cash equivalents, and investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2005:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 579,670	\$ 103,038	\$ 682,708
Investments	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<u>\$ 779,670</u>	<u>\$ 103,038</u>	<u>\$ 882,708</u>

Interest rate risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Township of Handy
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Township has not adopted a policy that indicates how the Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at June 30, 2005:

Due to Sewer Fund from:	
General Fund	\$ <u>23,384</u>
Due to Fiduciary funds from:	
Fiduciary funds	\$ <u>71,602</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Buildings and additions	630,504	-	-	630,504
Furniture and equipment	<u>100,922</u>	<u>15,425</u>	<u>-</u>	<u>116,347</u>
Subtotal	731,426	15,425	-0-	746,851
Accumulated depreciation				
Buildings and additions	(55,862)	(19,624)	-	(75,486)
Furniture and equipment	<u>(64,823)</u>	<u>(10,679)</u>	<u>-</u>	<u>(75,502)</u>
Subtotal	<u>(120,685)</u>	<u>(30,303)</u>	<u>-0-</u>	<u>(150,988)</u>
Net capital assets being depreciated	<u>610,741</u>	<u>(14,878)</u>	<u>-0-</u>	<u>595,863</u>
Governmental activities capital assets, net	<u>\$ 630,741</u>	<u>\$(14,878)</u>	<u>\$ -0-</u>	<u>\$ 615,863</u>

Township of Handy

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE D: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 21,710
Public safety	<u>8,593</u>
Total depreciation expense	<u>\$ 30,303</u>

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 2,893,476	\$ -	\$(2,893,476)	\$ -0-
Capital assets being depreciated				
Sewer system	-	4,558,589	-	4,558,589
Water system	<u>-</u>	<u>900,000</u>	<u>-</u>	<u>900,000</u>
Total capital assets being depreciated	-0-	5,488,589	-0-	5,458,598
Less accumulated depreciation for:				
Sewer system	-	(91,172)	-	(91,172)
Water system	<u>-</u>	<u>(18,000)</u>	<u>-</u>	<u>(18,000)</u>
Total accumulated depreciation	<u>-0-</u>	<u>(1,109,172)</u>	<u>-0-</u>	<u>(1,109,172)</u>
Net capital assets being depreciated	<u>-0-</u>	<u>5,349,417</u>	<u>-0-</u>	<u>5,349,417</u>
Business-type activities capital assets, net	<u>\$ 2,893,476</u>	<u>\$ 5,349,417</u>	<u>\$(2,893,476)</u>	<u>\$ 5,349,417</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
2002 G.O. Tax Bonds	\$ 385,000	\$ -	\$ 15,000	\$ 370,000	\$ 20,000
1999B MI Transportation Bonds	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>-0-</u>	<u>-</u>
Governmental activities Long-term liabilities	465,000	-0-	95,000	370,000	20,000
Business-type activities					
2003 Sewer System Bonds	<u>4,425,000</u>	<u>-</u>	<u>245,000</u>	<u>4,180,000</u>	<u>245,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 4,890,000</u>	<u>\$ -0-</u>	<u>\$ 340,000</u>	<u>\$ 4,550,000</u>	<u>\$ 265,000</u>

Township of Handy
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE E: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligations

\$400,000 General Obligation Tax Bonds dated September 1, 2002, due in annual installments ranging from \$20,000 to \$40,000 through October 1, 2017 with interest ranging from 4.45 to 4.70 percent, payable semi-annually. \$ 370,000

Sewer System Bonds

\$4,670,000 Sewer System Bonds dated November 15, 2003, due in annual installments ranging from \$245,000 to \$250,000 through June 1, 2022 with interest ranging from 2.70 to 4.75 percent, payable semi-annually. \$ 4,180,000

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Sewer System Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 20,000	\$ 16,190	\$ 245,000	\$ 162,525
2007	20,000	15,300	245,000	155,910
2008	20,000	14,410	245,000	149,295
2009	25,000	13,409	245,000	142,680
2010	25,000	12,296	245,000	135,085
2011-2015	150,000	42,903	1,225,000	540,063
2016-2020	110,000	7,902	1,230,000	284,282
2021-2022	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>35,500</u>
	<u>\$ 370,000</u>	<u>\$ 122,410</u>	<u>\$ 4,180,000</u>	<u>\$ 1,605,340</u>

NOTE F: RISK MANAGEMENT

The Township is exposed to various risks of loss for workers' compensation for which the Township carries commercial insurance.

The Township also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, auto, crime, in-land marine, and bonding losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE G: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of June 30, 2005:

Debt Service Fund	
Reserved for debt service	<u>\$ 3,440</u>

Township of Handy

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE H: BUILDING AND ZONING FINANCIAL INFORMATION

The Township elected to report the financial activities of the building and zoning department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2005:

REVENUES	
Zoning permits	\$ 33,025
EXPENDITURES	
Salary	23,837
Supplies and other	<u>828</u>
TOTAL EXPENDITURES	<u>24,665</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 8,360</u>

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the budgetary comparison schedule reported as required supplementary information to the financial statements, the Township's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level.

During the year ended June 30, 2005, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Elections	\$ 17,679	\$ 17,993	\$ 314
Other			
Insurance	13,000	17,670	4,670
Debt service			
Principal	-	80,000	80,000
Interest	-	1,800	1,800

REQUIRED SUPPLEMENTARY INFORMATION

Township of Handy

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 313,000	\$ 313,000	\$ 314,522	\$ 1,522
Conditional transfers tax	12,000	12,000	16,373	4,373
Trailer park fees	1,000	1,000	1,118	118
Penalties and interest	1,700	1,700	-	(1,700)
Administrative fees	75,000	75,000	77,275	2,275
Total taxes	402,700	402,700	409,288	6,588
Licenses and permits	15,000	15,000	33,025	18,025
Intergovernmental				
State shared revenue	270,000	270,000	266,625	(3,375)
Charges for services				
Fire runs	10,000	10,000	3,654	(6,346)
Other	2,500	2,500	3,016	516
Total charges for services	12,500	12,500	6,670	(5,830)
Interest and rents				
Interest	2,000	2,000	13,256	11,256
Rents	8,700	8,700	8,610	(90)
Total interest and rents	10,700	10,700	21,866	11,166
Other				
Refunds and reimbursements	127,000	127,000	62,906	(64,094)
Miscellaneous	10	10	2	(8)
Total other	127,010	127,010	62,908	(64,102)
TOTAL REVENUES	837,910	837,910	800,382	(37,528)
EXPENDITURES				
General government				
Township Board	53,138	62,166	43,605	18,561
Recording secretary	3,500	3,500	3,330	170
Supervisor	20,947	20,947	20,773	174
Office manager	35,000	35,000	29,732	5,268

Township of Handy

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
General government - continued				
Elections	\$ 11,101	\$ 17,679	\$ 17,993	\$ (314)
Assessor	45,000	45,000	40,800	4,200
Clerk	29,847	33,547	30,818	2,729
Board of Review	7,200	7,200	5,718	1,482
Treasurer	33,547	35,547	30,647	4,900
Cemetery	1,500	1,500	1,400	100
Township hall and grounds	96,100	119,572	99,270	20,302
Other	37,200	43,820	39,451	4,369
Total general government	374,080	425,478	363,537	61,941
Public safety				
Fire services	122,000	122,000	68,057	53,943
Public works				
Highways and streets	219,000	222,803	97,316	125,487
Street lighting	500	500	318	182
Refuse collection	105,000	105,000	2,431	102,569
Total public works	324,500	328,303	100,065	228,238
Community and economic development				
Planning commission	85,500	99,500	74,206	25,294
Zoning board	28,000	28,000	24,665	3,335
Contracted services	7,000	7,000	7,000	-0-
Board of appeals	5,600	5,600	1,263	4,337
Total community and economic development	126,100	140,100	107,134	32,966
Recreation and cultural				
Parks and recreation	30,000	30,000	15,863	14,137
Other				
Payroll taxes	15,000	15,000	13,607	1,393
Insurance	13,000	13,000	17,670	(4,670)
Other	95,000	25,799	-	25,799
Total other	123,000	53,799	31,277	22,522

Township of Handy

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt service				
Principal	\$ -	\$ -	\$ 80,000	\$ (80,000)
Interest	-	-	1,880	(1,880)
Total debt service	-0-	-0-	81,880	(81,880)
TOTAL EXPENDITURES	1,099,680	1,099,680	767,813	331,867
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(261,770)	(261,770)	32,569	294,339
Fund balance, beginning of year	602,574	602,574	602,574	-0-
Fund balance, end of year	<u>\$ 340,804</u>	<u>\$ 340,804</u>	<u>\$ 635,143</u>	<u>\$ 294,339</u>

OTHER SUPPLEMENTARY INFORMATION

Township of Handy

Agency Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2005

	Trust and Agency	Current Tax Collection	Planning and Zoning Escrow
ASSETS			
Cash	\$ 69,183	\$ 22,846	\$ 10,908
Due from individuals and agencies	-	-	-
Due from other funds	29	53,115	1,950
	<u>\$ 69,212</u>	<u>\$ 75,961</u>	<u>\$ 12,858</u>
LIABILITIES			
Due to other funds	\$ 5,700	\$ 51,448	\$ -
Due to individuals and agencies	62,759	2,884	12,850
Due to other governmental units	753	21,629	8
TOTAL LIABILITIES	<u>\$ 69,212</u>	<u>\$ 75,961</u>	<u>\$ 12,858</u>

Summer Tax Collection	Water and Sewer Billings	Total
\$ 1	\$ 100	\$ 103,038
82	-	82
16,508	-	71,602
<u>\$ 16,591</u>	<u>\$ 100</u>	<u>\$ 174,722</u>
\$ 14,354	\$ 100	\$ 71,602
0	-	78,493
2,237	-	24,627
<u>\$ 16,591</u>	<u>\$ 100</u>	<u>\$ 174,722</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Members of the Township Board
Township of Handy
Fowlerville, Michigan

As you know, we have recently completed our audit of the records of Handy Township, Michigan as of and for the year ended June 30, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The Township should reconcile the current tax activity with the general ledger.

After analysis of the current tax fund, we determined that although the activity (i.e. receipts and disbursements) of the Current Tax Fund is being reconciled to the property tax subsidiary ledgers, it is not being reconciled with the general ledger on a periodic basis. This issue was noted and reported in our audit comments last year.

We suggest the Township reconcile the Current Tax Fund activity with the amounts recorded in the computerized general ledger system to assure that the ending liability balances are correct at least on a monthly basis. Reconciling this activity will strengthen and improve the internal control over property tax collections and disbursements.

2. A reconciliation of agency liability accounts to supporting documentation should be performed.

During the course of our audit, we noted that several liability line items in the Township's Trust and Agency Funds could not be substantiated with supporting documentation.

We suggest the Township attempt to locate supporting documentation related to the Trust and Agency Fund liability accounts and make any necessary adjustments to the general ledger to assure that accurate balances are reflected in the Township's records.

3. The Township should review its internal control policies and procedures related to utility billing procedures.

During our tests of utility billing transactions, we noted seventeen (17) instances in which a customer was billed one-half the appropriate rate for water and sewer usage.

We suggest the Township review its internal control policies and implement procedures to assure that customers are billed appropriately.

4. Budgets should be monitored and amended when necessary.

As noted in the notes to the financial statements, some of the budgeted activities of the Township's General Fund exceeded the amounts appropriated.

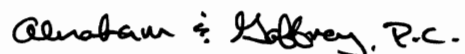
The Michigan Public Act 621 of 1978, as amended, provides that the Township shall not incur expenditures in excess of the amounts appropriated.

We suggest the Township monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements. These conditions did not affect our report on the financial statements dated September 15, 2005.

This report is intended solely for the information of management and the Township Board of Handy Township and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 15, 2005